

**APPLICATION FOR EXTENSION OF THE  
SAFEGUARD MEASURE ON THE FLAT  
GLASS IMPORTS FROM IRAN ISLAMIC  
REPUBLIC, RUSSIAN FEDERATION AND  
UKRAINE**

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**APRIL 2006**

# 1 Information about the local producer that submitted the complaint

## 1.1 Company name, address, telephone, fax, e-mail and Web page if available

Company name and address: TRAKYA CAM SANAYİİ A.Ş.  
İş Kuleleri Kule 3 / 34330  
İstanbul  
Telephone : 212-3505050  
Fax : 212-3505070  
Web : www.sisecam.com.tr

## 1.2 Information about the lawyer or/ and financial adviser who is assigned to represent the company for this issue; name and address if available (representation document should be attached):

Assigned Association : Şişecam Hukuk Müşavirliği  
Address : İş Kuleleri Kule 3 / 34330  
İstanbul

## 1.3 The list of the shareholders and shares:

SHAREHOLDERS	PARTNERSHIP	
	Share	Percentage (%)
Paşabahçe Cam Sanayii ve Tic.A.Ş.	9,590	0.004
Anadolu Cam Sanayii A.Ş.	60,401	0.027
Cam Elyaf Sanayii A.Ş.	59,361	0.026
Camiş Madencilik A.Ş.	47,699	0.021
T.Şişe ve Cam Fabrikaları A.Ş.	138,451,870	60.831
Cam Pazarlama A.Ş.	13,308,652	5.847
Camiş Limited Şirketi	721,034	0.317
<i>Total within the Group</i>	<i>152,658,607</i>	<i>67.073</i>
IFC	150,000	0.066
Other out of the Group	74,791,393	32.861
<i>Total out of the Group</i>	<i>74,941,393</i>	<i>32.927</i>
<b>Grand Total</b>	<b>227,600,000</b>	<b>100.000</b>

Authorized registered capital is 600 Million YTL.

#### 1.4 History of the Company:

The first step of the Şişecam Group and Turkish Glass Industry was the establishment of the Paşabahçe Factory in the year 1934.

The Group has started the flat glass production in 1961 in Çayırova Cam Sanayii whose technology was imported from Russia where the sheet glass production technology was in application. Second sheet glass production line was built in the same location in 1967. In 1975 the third sheet glass production line was purchased from Anadolu Cam San. A.Ş.

Şişecam has started to use licensed Float Technology, which is considered as the biggest development in the glass production in the 20<sup>th</sup> century, in flat glass production since 1981.

Our company has made production plant investments in three different locations; 2 lines Lüleburgaz, 2 lines in Mersin and 1 line in Bulgaria and in total we have 5 lined production system in 2006.

In order to satisfy all the market needs for flat glass industry, in addition to its intense investments in flat glass production, our company has made investments in flat glass processing plants and improved its product range inline with international developments.

Additionally an investment for 1 float glass production line in Yenişehir is in construction process and will be finalized in the year 2007 and the decision for another line in the same location has been taken and the investment will be realized in the same year. In addition to Float glass production lines, 1 coated glass production line investment will be realized in 2007 in Yenişehir

Today all the companies in the Flat Glass Group of Şişecam are gathered together under **Trakya Cam Sanayii A.Ş. name. Trakya Cam, which employs 2000 people in flat glass, patterned glass, automotive glass, tempered glass, mirror, coated glass, laminated glass and insulating glass production plants in Lüleburgaz/Trakya, Mersin and Çayırova, represents a great economic power. Additionally with the new employments for the new investments, the number of the employees will be increased in 25% in 2008.**

In order to remain its competitive position and increase its market share Trakya Cam has to face intense competition in the local and international markets. To reach this aim, our first step is our investment for the first line in Bulgaria which was started in 2006.

## 1.5 Application areas of the company and products that are produced or / and traded:

A very large product range is being used in the Turkish flat glass market.. Our company introduces the new products that are developed in international markets if subjected products are suitable for our market conditions in terms of cost and advantages.

Trakya Cam is the sole producer of the base glass (flat glass, patterned glass) in the Turkish Flat Glass Industry. Our flat glass production capacity is the second after Russia in the area, which covers Middle East, Balkans, North Africa and Commonwealth of Independent States.

<b>Our Products</b>	<b>Production Location</b>
<b>Plants in Operation</b>	
<b>Plants in Turkey</b>	
<b>Flat Glass</b> In different thicknesses clear, bronze, blue, green, gray and on-line coated.	Trakya and Mersin Factories
<b>Automotive Glasses</b> (tempered, laminated, insulated, bullet proof)	Trakya Factory
<b>Mirror</b> In different thicknesses clear and colored (blue, green, bronze, gray)	Trakya Factory
<b>Laminated Glass</b> In different thicknesses clear and colored (for construction and white goods industries)	Trakya Factory
<b>Insulating Glass</b> (ISICAM, ISICAM S, ISICAM Konfor )	Çayırova Factory
<b>Coated Glass</b> (Low-E and solar control glass-off-line)	Çayırova Factory
<b>Tempered Glass</b>	Çayırova Factory
<b>Patterned and wired glass</b> In different thicknesses and designs clear and colored (bronze, gray, amber)	Mersin Factory
<b>Plants in Bulgaria</b>	
<b>Flat Glass</b> In different thicknesses clear	Bulgaria Factory
<b>Mirror</b> In different thicknesses clear and colored (blue, green, bronze, gray)	Bulgaria Factory
<b>Plants in investment process</b>	
<b>Flat Glass</b> Clear	Yenişehir Factory
<b>Coated Glass</b> (high performance Low-E – off-line)	Yenişehir Factory

**1.6 Which accounting method is used in Financial Tables of the Company.**

Financial Statements of the Company is prepared in accordance with the accounting principles that rely on Balance Sheet basis.

**1.7 If available please attach the financial and/or annual reports of your company for the last three years.**

The reports for Trakya Cam Sanayii A.Ş and Türkiye Şişe ve Cam Fabrikaları A.Ş. are available at [www.sisecam.com.tr](http://www.sisecam.com.tr) .

**2 Information about the other local producers**

There is no other flat glass producer in Turkey. Therefore the questions in this part are neglected.

**3 The product subject to complaint**

**3.1 Turkish Custom Tariff Code of the products subject to complaint**

7004 Drawn glass and blown glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked.

7005 Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked.

**3.2 The country/s of the product subject to complaint:**

The origin of the product subject to complaint is Iran, Russia and Ukraine.

**3.3 Technical properties of the product subject to complaint:**

The technical properties of the product subject to complaint are described in Turkish Standard TS 10288/May 1982.

**3.4 Application fields of the product subject to complaint:**

In majority 4 mm flat glass is imported from subjected countries to Turkey.

In broad sense, flat glass products are considered as float glass, patterned glass, mirror, laminated glass and coated glass. All the flat glass products are based on and produced with different processing methods from basic float glass and patterned glass. That is the reason behind why float glass and patterned glass are considered as the base glasses in flat glass industry.

Flat glass products are mainly used in construction, furniture, automotive, white goods, energy and agriculture industries.

Depending on the specific requirements of the application field, the base glasses that are produced in big sized plates are either just cut-to-size or processed in different methods and become an end product.

In our country, flat glass products are mainly used in construction industry.

**3.5 Please explain the local distribution network of the product subject to complaint with the help of a diagram. (Importer – wholesaler – retailer – end-user) or (agent – authorized seller wholesaler – retailer – end-user) or (importer- re-producers):**

The role of the firms in the flat glass distribution network can be described as below:

**Importers:** These firms realize the flat glass import in our country. They resell the imported goods to the independent wholesalers and processors in the market. The importers, who also have re-producing plants, use some part of the goods they import in their own plants and re-sell finished products to the market.

**Processors/Double Glazers (Re-producers):** These are the firms who process the float glass in different techniques and make an end-product in the market. The majority of these firms are mainly involved in double glazing and edge processing.

**Wholesalers:** The role of these firms is to purchase the imported goods from importers and distribute them to retailers and re-producers in the market.

**Retailers:** As the closest points to the end-user, there are lots of retailers in the market. The role of these firms is to provide cut-to-size flat glass products to the end-user.

**3.6 Please explain how the applicators perceive the product subject to complaint**

Flat glass is used as semi-row material in most of the sectors. Therefore the applicators of the product are the producers who use it in their production

The direct purchase of flat glass by the end-user is not an issue in the market. Flat glass is a part of the end products such as window, furniture, white goods. And also the physical properties of the product are not eligible to make quality judgments or create brand awareness by the end-user.

**3.7 Please explain the production method of the product subject to complaint in the countries where it is imported:**

In the mentioned countries there are several production lines where sheet and float production technologies are in application.

## **4 The information about the like or directly competitive product**

### **4.1 The description of the like or directly competitive product:**

The like or directly competitive product is the flat glass which is produced by Trakya Cam with float production technology.

### **4.2 Turkish Custom Tariff Code of the like or directly competitive product:**

7005	Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked.
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### **4.3 The technical properties of the like or directly competitive product:**

The technical properties of the like or directly competitive product are described in Turkish Standard TS 10288/May 1982.

### **4.4 The application fields of the like or directly competitive product:**

Our products are used in all kind of flat glass processing fields. Therefore we serve all the sectors where the flat glass is used as semi-row material.

### **4.5 Please explain the local distribution network of the like or directly competitive product with the help of a diagram. (Importer – wholesaler – retailer – end-user) or (agent – authorized seller wholesaler – retailer – end-user) or (importer- re-producers:**

**The authorized sellers of Trakya:** The major role of these firms is to distribute the Trakya Cam's products to the market. The flat glass products are sold to independent wholesalers, double glazers, processors and retailers depending on their demand by these authorized sellers.

**Patented Producers of ISICAM:** These firms produce double glaze units, in line with the standards that are described by Trakya Cam, under ISICAM patent agreement. They use the flat glass, which is produced by Trakya Cam in their production, and sell the end-product to the construction market.

**Producers (Processors/ Double Glazers):** Trakya Cam makes direct sells to some of the producers in the market who process the flat glass in different techniques and make end products.

### **4.6 Please explain how the users perceive the like or directly competitive product:**

As flat glass is considered to be an industrial semi-row material, the applicators are processors and double glazers. Due to the fact that the purchasing decision for flat glass is not made by end-user, there is no brand awareness in the end-users' mind.

#### **4.7 Please explain the production method of the like or directly competitive product:**

The major development in flat glass production in the 20th century is the invention of Float Production Technology by Pilkington. The Float glass is produced by floating a continuous stream of 1700°C molten glass, which is basically sand and other materials onto a bath of molten tin. The float glass production line is established with a set of parts, which are serially connected to each other. The total length of the line is 500 meters.

### **5 The like or directly competitive product:**

#### **5.1 Please explain in detail why the goods described in the 3. and 4. parts are considered as the like or directly competitive products**

The competition structure of the float glass produced in Russia, Ukraine and Iran against Trakya Cam's products is briefly described below

**Production technology:** The same or similar production technology is used in mentioned countries as Trakya Cam.

**The perception of Applicants:** As there is no brand awareness in the end-users mind for flat glass and it is not possible to create, as they are not decision makers, the applicants who use the flat glass in their production as semi-row material base their purchase decision only on price not on quality.

**Distribution Channel:** The flat glass imported from Iran, Russia and Ukraine is sold to independent wholesalers, producers and retailers in the market by importers. Float glass produced by Trakya Cam is sold to same applicants by the authorized sellers and some part is sold directly to some of the producers in the market.

**Application fields:** The float glass produced by Trakya Cam and imported from Iran, Russia and Ukraine both is used in major fields; construction and furniture sectors.

As stated above, the flat glass produced by **Trakya Cam and flat glass imported from Iran, Russia and Ukraine is produced by same or similar technology and the applicants consider that they are substitute products. The both products are distributed to the market by the same channel and eventually are used in the same application fields. That is why Iran, Ukraine and Russia based flat glass is direct competitor to Trakya Cam's float glass.**

### **6 The Developments During the Period of Quota implementation Period**

#### **6.1 The developments in the imports from Russia, Ukraine and Iran**

The import figures from Russia, Ukraine and Iran after the quantitative restriction are shown below:

	07/2003-07/2004		07/2004-07/2005		07/2005-07/2006	
	1. Period quota amount	Actual import amount	2. Period quota amount	Actual import amount	3. Period quota amount	Actual import amount 07/2005-2/2006
<b>Iran</b>	5.000	2.708	8.750	11.761	8.750	1.598
<b>Russia</b>	36.000	32.984	36.000	34.834	36.000	7.811
<b>Ukraine</b>	13.000	11.744	13.000	6.959	13.000	39

Due to the preparations for adjusting quota conditions, imports from Iran could not reach the quota amount in the first year. However in the second year all the preparations are completed and also with the help of “Inward Processing” application the imports from Iran has actualized 34% over than the given quota amount.

The imports from Russia shows that practically all conditions for quota are applicable and these levels are the minimum restriction levels.

In 2004, the local producer in Ukraine has made “cold repair” in one of their lines and this caused capacity loss, therefore the imports from Ukraine has declined during this period.

The import figures for 2001-2005 period are given in the below table. The figures are based on National Statistics Institute reports.

<b>Quantity (tons)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Total Imports	85,327	109,349	124,857	144,465	231,869
Russia	36,445	34,321	48,610	30,871	26,885
Ukraine	13,779	23,827	8,274	11,674	4,780
Iran	6,438	16,312	7,423	7,161	7,425
Sum of Imports from Russia, Ukraine and Iran	56,661	74,460	64,307	49,706	39,090

## 6.2 The Changes in Currency

As the imports from Russia, Ukraine and Iran is actualized in USD \$, the changes in this currency against Turkish Lira strongly affect the price level of Trakya Cam and eventually the competition in the market.

As it is known, US\$ has not been increased parallel to local inflation rates, instead it has been decreased in 2003-2005 period. The differences in US\$ in this period are given in the table below.

US\$ has been devaluated almost 15 % in the beginning of 2005 comparing to the beginning of 2003. As a result of this, the imported goods had become cheaper in YTL base, although their prices in US\$ has not been changed.

This continuing development in the US\$ negatively effects the companies whose costs based on YTL. Because, the cost of production and execution increases in parallel with inflation, we are not able to make any price increase. Otherwise we are in threat of losing our competitive position against importers. Ironically, we need to decrease our sales price with periodical sales campaigns.

Changes in US\$	2000	2001	2002	2003	2004	2005
US\$/YTL – values end of the year	0,6763	1,4482	1,5792	1,4285	1,3962	1,3460

## 6.3 Changes in Prices

Trakya Cam's pricing principals are based on:

- The price levels in the world which based on supply demand balance,
- Domestic inflation rates,
- And the changes in US\$ as majority of import actualized in this currency.

The changes during 2002-2005 in the price of 4 mm flat glass which accounts the biggest portion in our sales are shown in the below table:

### Trakya Cam Price Changes – 4mm clear un-coated flat glass

CIF gross price index	2002	2003	2004	2005
CIF YTL Index	100	106	115	111
CIF \$ Index	100	107	121	125

As it is seen in the table, although during 2002-2005 period YTL Prices has increased 11 %, US\$ prices has increased 25%. The competitive disadvantage caused by US\$ devaluation can be clearly seen with these figures.

On the other hand, as it could be seen in the table below, if we evaluate the development of adjusted prices to Inflation, Trakya Cam's prices have been reduced 25% in actual YTL base.

**Trakya Cam Price Changes – 4mm clear un-coated flat glass**

	2002	2003	2004	2005
<b>TEFE Index</b>	100	114	130	133
<b>CIF Adjusted Price Index - YTL</b>	100	86	82	75

These figures clearly show that, as it is continuously declared by our competitors' "Trakya Cam still keeps on price increases and supply limited amount of flat glass to the market with the help of being sole producer " is not the actual situation in the market.

**6.4 Float glass production and capacity utilization**

Trakya Cam had realized its float glass production with three lines until 2000 and after that the production has been realized by 4 float lines.

Although the 4th line has been established and started the production in 2000-2003 periods before quota, Trakya Cam could not increase production and had only used 3 lines' full capacity.

As a result of this capacity utilization rate had decreased to 70%. After the quota implementation, Trakya Cam's production has increased rapidly and capacity utilization as well.

	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Production Index (ton)</b>	100	115	104	130	113	119	143	137	155
<b>Capacity utilization rate Index (%)</b>	100	115	104	102	84	88	104	99	112

## 6.5 The Developments in Float Glass Stock

The float glass stock development have followed parallel trend with capacity utilization and production. The stock levels had increased rapidly during 2002 – first half of 2003 and just before the quota application, and reached the highest level in July 2003.

Right after the quota decision the stock levels declined significantly. Due to the increase in imports in 2005, the stock levels increased again.

Opening Stock of Flat Glass											
	Before The Quota							Quota Period			
	1997	1998	1999	2000	2001	2002	2003	2003 July	2004	2005	2006
Index (ton)	100	81	122	64	136	162	119	174	153	69	122

This result show that quantitative restriction (quota) supports the local producers to use it's sources effectively as aimed.

## 6.6 Production Efficiency

The production efficiency in float glass production is described as the rate of net production output which has trade value to total production. Therefore the increase in this rate means in decline in production costs and results productivity increase.

As the increase in production efficiency can also be considered as production increase with zero marjinal cost, this issue is higly important factor for the producers.

With the help of engineering works and continues production during the quota period, very important improvements in production efficiency has been actualized. As an example, the production efficiency figures of 4mm clear float glass are given in the table below.

Although the quantitative restriction has been in force, Trakya Cam still keeps on development works in order to increase its production efficiency. And the development works on 4mm clear float glass's production efficiency could be considered as a very good example to these works.

### Production Efficiency - 4mm Clear Float Glass

	2001	2002	2003	2004	2005
Index (%)	100	100	104	106	106

## 6.7 Costs

Trakya Cam continuously emphasizes on the engineering works to keep its cost increase below the WPI increase, although the increase in its input prices are over WPI.

With the help of cost reduction works in all aspects of production and execution, however increase in WPI has been 74% in 5-year period, the increase in production cost has been 42% and commercial cost has been 39%.

Cost Development - YTL	2001	2002	2003	2004	2005
WPI – Index	100	131	149	170	174
Production Cost Index	100	125	135	145	142
Commercial Cost Index	100	125	130	144	139
Fuel Oil Price Index	100	160	189	203	235
Natural Gas Price Index	100	121	112	107	129
Electricity Price Index	100	144	147	137	147

Energy is intensively used in float production. Therefore the input prices of energy as fuel oil, natural gas and electricity affect the result production cost in a very important level.

Although fuel oil prices have increased over than WPI as 135%, electricity prices have increase 47% and the natural gas prices have increased 29%, Trakya Cam could keep its production cost under control. These results are provided by the cost efficiency works, which were executed in great importance within the group.

## 7 Float Glass Market Forecasts in 2006-2008 and Trakya Cam's Business Plan

The important topics about the Trakya Cam's Business Plan are explained below.

### 7.1 Developments in Competition

It is expected that the imports from Russia, Ukraine and Iran will be doubled in quantity after the withdrawal of quantitative restriction. This expectation will be explained in the following sections.

### 7.2 Exports of Trakya Cam

With the new investments, Trakya Cam will emphasize on the export sales, which obtain foreign currency income as well as to supply the local market demand and its own internal usage.

## 7.3 Production and Investment Program of Trakya Cam

### 7.3.1 Float Glass

In addition to the new float factory in Bulgaria, which was started in 2006, another 2 float lines will be realized in 2007 in Yenişehir. As a result, the total production capacity of float glass in Turkey will be increased in 50%.

### 7.3.2 Coated Glass

In addition to the new float glass production lines, 1 coated glass production line investment will be realized in 2007 in Yenişehir with the 5-million m<sup>2</sup> production capacities.

## 7.4 Trakya Cam's Financial Data in 2001-2005 Period

Data related to production		2001	2002	2003	2004	2005	2003-1*	2003-2
Total Production	Chg.% Ton	-	5	20	-5	13	-	18
	Index Ton	100	105	126	121	136	100	118
Total Capacity	Index Ton	100	100	101	101	101	-	-
Capacity Utilization Rate	Index %	100	104	124	118	134	-	-
Net Domestic Sales	Chg.% Ton	-	8	15	25	11	-	54
	Index Ton	100	108	125	155	172	100	154
Net Export Sales	Chg.% Ton	-	13	1	-34	-41	-	9
	Index Ton	100	113	115	75	44	100	109
Total Net Sales	Chg.% Ton	-	10	10	4	0	-	36
	Index Ton	100	110	121	126	126	100	136
Internal Use of the Company	Chg.% Ton	-	27	36	4	11	-	15
	Index Ton	100	127	172	179	200	100	115
Production for Sales	Chg.% Ton	-	2	17	-7	13	-	19
	Index Ton	100	102	120	112	127	100	119
Trakya Cam Market Share	Index %	100	94	95	98	89	100	119
Import Market Share **	Index %	100	125	120	110	145	100	58
Iran-Russia-Ukraine Market Share **	Index Ton	100	132	113	89	70	100	35
	Index %	100	113	80	53	33	100	29
Import from Iran-Russia-Ukraine /Production **	Index %	100	125	90	74	51	100	29
	Index %	100	125	90	74	51	100	29
Total stock	Chg.% Ton	-	-26	29	-55	77	-	-11
	Index Ton	100	74	95	43	75	100	89
Stock/Production	% Ton	18%	11%	12%	6%	9%	29%	22%
Domestic Consumption (Domestic Sales+Import*)	% Ton	-	15	13	22	22	-	29
	Index Ton	100	115	113	122	122	100	129
Quantity of direct employee base on float lines	Chg.%	-	-2	-1	-7	-4	-	-
	Index	100	98	97	90	87	-	-
Productivity	Index Ton/person	100	107	130	133	157	-	-

\* In order to evaluate the difference between the period before the quota and the period after the quota, the first and the second half of 2003 are separately shown in the table. And the 1<sup>st</sup> half of 2003 is the base year for the evaluation.

\*\*Import data are based on National Statistics Institute.

The imports from Russia, Ukraine and Iran is expected to double in quantity, which has been realized before the quota period, and this was the maximum quantity from the mentioned countries. On the other hand the market share of imports from these countries is expected to reach the same figures as before the quota period.

Because of this expectation, Trakya Cam market share will be decreased sharply although the quantitative restriction against Chinese origin float glass.

## 8 The claim on serious injury or threat of serious injury

### 8.1 The Flat Glass market situation and Consumption in Russia, Ukraine and Iran

- **Russia;** Recently, the rapid growth in construction sector has triggered the demand for flat glass.
- **Iran;** Due to the rapid growth in automotive and construction industries, the demand for flat glass has been increased in recent years.
- **Ukraine;** A slow down in the flat glass demand is expected in Ukraine.

### 8.2 Current production capacity in Russia, Ukraine and Iran

The production capacity and developments in the mentioned countries is shown in the table below;

Country-Capacity*			The period before the Quota	Quota Period & Actual
<b>Russia</b>	The number of lines	Index (unit)	100	125
	Capacity	Index (ton)	100	134
<b>Iran</b>	The number of lines	Index (unit)	100	250
	Capacity	Index (ton)	100	304
<b>Ukraine</b>	The number of lines	Index (unit)	100	100
	Capacity	Index (ton)	100	100

\* the calculation is based on float production

Source: Glassonline, The Freedonia Group, Inc., CPIV (Standing Committee of the European Glass Industries), producers' web sites, Sisecam

Total flat glass production capacity including float and sheet production in the mentioned countries is shown below;

**Present Status**

Country-Capacity		Float Sheet Production Capacity	Total Consumption
<b>Russia</b>	Index (ton)	100	<b>80</b>
<b>Iran</b>	Index (ton)	100	<b>52</b>
<b>Ukraine</b>	Index (ton)	100	<b>88</b>

Source: Sisecam

**Russia**

The float production of Russia has been increased 34% in the quota period. As it is shown in the table above, in the actual situation, although the economic growth is rapid in the country, there is still excess production capacity in the country.

**Iran**

The float production in Iran has tripled in the quota period especially after 2003 the new lines have triggered this growth

As the production is over than the demand in Iran, although there are lots of logistic difficulties, the excess capacity should be directed to the export markets.

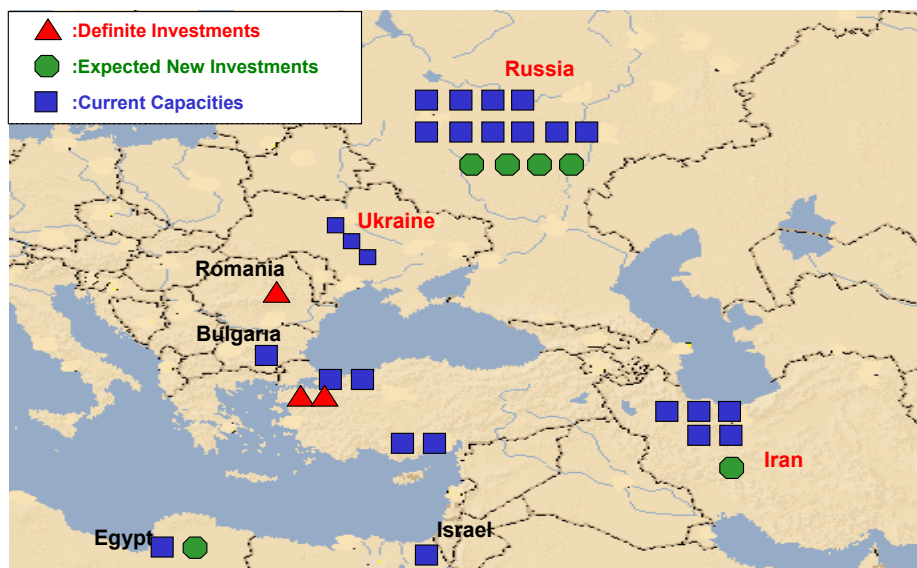
**Ukraine**

As the flat glass demand in Russia has turned towards first quality float glass, it is expected that the Ukrainian producers will direct their export efforts to other markets.

**8.3 New Investment and Capacity Increases After 2006**

The map below shows the current production lines as well as the new investments in the mentioned countries.

**Current Float Lines and Investments**



The table below shows the capacity increase rate of the countries after the new investments are realized.

Capacity Increase		Present Status	Planning new investments after 2006
Country - Capacities		Float+Sheet Production Capacities	Float+Sheet Production Capacities
<b>Russia</b>	Index (tone)	100	<b>148</b>
<b>Iran</b>	Index (tone)	100	<b>119</b>

Source: Glassonline, CPIV (Standing Committee of the European Glass Industries), producers' web sites.

The table below shows the capacity level after the new lines and the total consumption, which is calculated in accordance with the economic and sectoral developments in the mentioned countries.

#### The excess capacity after the new investments - after 2006

Country - Capacities		Float+Sheet Production Capacities	Total Consumption
<b>Russia</b>	Index (ton)	100	<b>72</b>
<b>Iran</b>	Index (ton)	100	<b>52</b>

Source: IMF and the economists' economic forecasts

### Russia

As the investments on new building renovation in the construction industry tend to increase, it's expected that the flat glass consumption will continue to increase. On the other hand, the production capacity will increase 48% with new investments.

As it could be seen in the above table this will result with excess capacity in Russia in near future.

### Iran

The total production capacity is tripled with the new investments actualized in 2003 and after comparing to the before quota period in Iran. It is expected that production capacity will be increased in 20% with the announced new lines.

As the growth expectations in Iran is evaluated, the production capacity increase will be over than the float glass consumption increase although the construction sector is expected to increase and this will result with great excess capacity in the country.

### Ukraine

Although there is no expectation for capacity increase in the country, it is expected that there will be great structural changes in the Ukrainian producer's export markets.

Due to its closeness and bigness, Russia is the main export market of Ukraine. Because the flat glass demand of Russian market tends to first quality float glass and the first

quality float production has increased after the new investments, the market share of Ukrainian producers in Russia is expected to decline.

As there is no expectation for increase in Ukraine' domestic consumption to compensate this decline, the Ukrainian producers will aim to export markets where price is the priority. As a result there will be excess production capacity in Ukraine.

#### **8.4 Other Factors that Affect Increase in Imports**

##### **Logistics Convenience**

##### **Russia and Ukraine**

The river and the railway transportation is mainly used in domestic transport in Russia and Ukraine. Due to developed infrastructure and low energy costs, the domestic freight rates are very low in these countries. In accordance with the information gained from our customers in those countries, the producers can transport their goods with the railways, which go from their factories to the ports.

Additionally, with the help of 1200-1500 tones river vessels they can transport their goods directly to Istanbul Ports without any discharging costs.

##### **Iran**

The float production takes place in Ghazvin Industrial Region, which is 60 km away from Tehran. As this region is so close to Turkish border, Turkey is a target market because of its scale and convenience for land transportation.

Due to low gas oil prices in Iran, Iranian producers have very low transport cost and this is a great competitive advantage for them. This advantage is also important for the export of Balkan region for them.

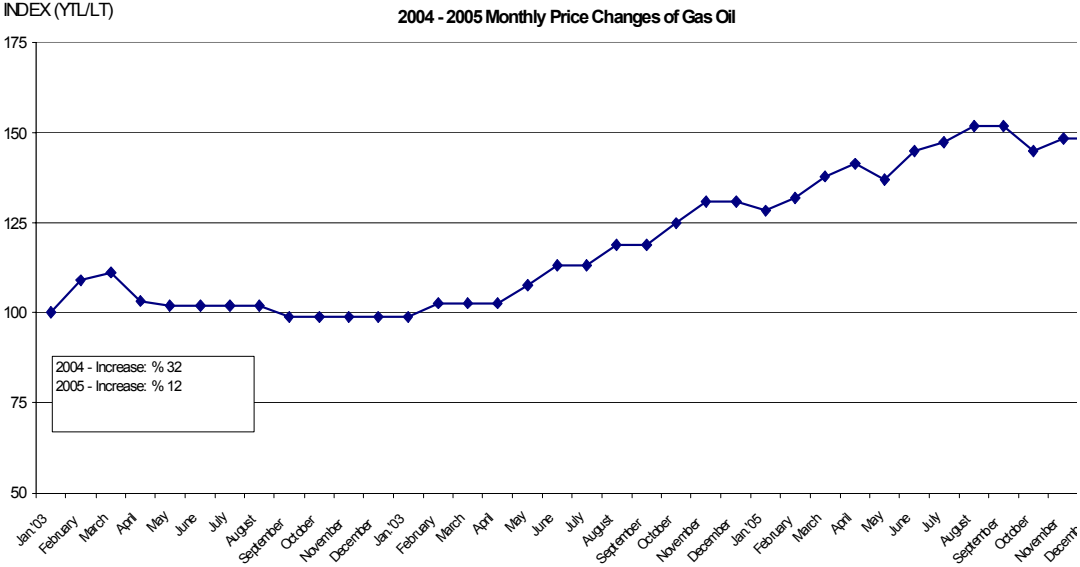
In addition to land transportation, Iranian producers have vessel transport opportunity from Caspian Sea and also from Bandar Abbas Port which is located in the south of the country. However if they use this transport method they have to bear additional inland transport cost, discharge and loading costs at the port. And in addition to these additional costs, they take great risks in facing quality problems with the vessel transport. As a result of additional costs and risk factors they tend to export to the countries where they can reach by land transport.

The developments in gas oil prices, which are very important in land transportation, place very important role in competition.

The gas oil prices in Turkey has increased 32% in 2004, 16% in 2005 which is over than the inflation rate. As a result of this the trucks, which purchase the gas oil from Iranian border, can have lower freight rates comparing to Turkish trucks, which operate in Turkey. The developments in gas oil prices are shown below.

The producers in these countries use low energy cost advantage comparing to Turkey in both in production and transportation.

**Development of Gas Oil Prices in Turkey  
2003-2005**



Source: Petrol Ofisi, Anatolian side of Istanbul, VAT deducted prices.

**8.5 Cost Comparison**

When we compare the cost structure of Trakya Cam with the producers in Iran and Russia, we see great differences due to the differences in input prices and in the economies. The significant example for this is the energy prices.

The price differences had been in very high levels, due to their efforts to adjust to free trade conditions and to integrate in to the world trade, the price differences tends to get lower. But they still have cost advantages compare to Turkey and this advantage is expected to continue because of the energy source of those countries.

Such kind of cost advantage cannot be compensated with effective engineering works and technology chosen in float production in which the energy is the main cost.

**Cost difference between Russia-Turkey**

	2002	2005
<b>Energy</b>	<b>Difference</b>	<b>Difference</b>
<b>Natural Gas (\$/m<sup>3</sup>)</b>	%1143	%416
<b>Electricity (\$/kWh)</b>	%633	%143

### Cost difference between Iran -Turkey

	2002	2005*
<b>Energy</b>	<b>Difference</b>	<b>Difference</b>
<b>Natural Gas (\$/m<sup>3</sup>)</b>	%1640	-
<b>Electricity (\$/kWh)</b>	%633	-

\* Not accessible yet

The difference in energy cost of Iranian producers will continue in almost the same levels 2005.

### 8.6 Claim on Increase in Imports from Russia, Ukraine, and Iran

The import from the mentioned countries is expected to increase after the quantitative restriction.

When we evaluate this claim, the below issues are taken in to the consideration: The developments during the quota period and potential developments in ahead.

The evaluations on country bases can be found below.

#### Russia:

The export data of Russia for the 2002-2005 periods is shown below.

Russia				
	2002	2003	2004	2005
<b>Turkey proportion in Russian Exports</b>	%24	%31	%23	?
<b>Exports to Turkey (NSI, Index)</b>	100	141	91	79
<b>Exports to Greece * (Index)</b>	100	129	188	188
<b>Greece proportion in Russian Exports</b>	%3	%4	%7	?
<b>Exports to Bulgaria * (Index)</b>	100	198	167	260
<b>Bulgaria proportion in Russian Exports</b>	%3	%6	%6	?

Source: UN Statistic Division – Statistics Institute of Greece - Statistics Institute of Bulgaria

According to NSI figures, Turkey proportion in exports of Russia reaches 30% and Turkey is a target market for the Russian float glass producers. It's known that if the import

figures that are not shown in the NSI figures added, Turkey' proportion in Russia' exports could reach to 43%. After the quantitative restriction Turkey' proportion in Russian exports has declined to 23%.

The exported float glass from Russia is mainly in 2nd quality and low price. Therefore the producers aim to the markets where the price is more important than the quality. As a result after the quantitative restriction in Turkey, the producers changed their export markets to Balkan Region and North Africa. The increase in exports to Greece and Bulgaria shows this development. If the quantitative restriction is withdrawn, 2<sup>nd</sup> quality float producers will aim to Turkey again.

This claim is supported by not only the trend before the quota period but also the expected developments explained below:

- The production capacity in Russia increases rapidly, more and more demand tends to the 1<sup>st</sup> quality float glass and second quality float glass demand declines sharply. Therefore much more of the second quality float glass capacity will direct its sales to the export markets.
- After Trakya Cam in Bulgaria and Saint Gobain in Romania start local production, the completion will get very intense in Balkan Region. Despite the low price advantage, it will be highly difficult to be in these markets.

On the other hand, the 1<sup>st</sup> quality float production capacity in Russia has been increased over 100 % after the new line investments. With the announced new lines, there will also be excess capacity for the 1<sup>st</sup> quality float glass in near future in Russia. If the quantitative restriction is withdrawn, in addition to the second quality producers, the 1<sup>st</sup> quality float glass producers will also direct their exports to Turkey.

**Iran :**

The export figures from Iran during 2002-2005 periods are given below:

Iran				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Exports to Turkey (NSI Index)</b>	100	45	45	46
<b>Exports to Greece" (NSI Index)</b>	100	650	1800	2000
<b>Exports to Bulgaria" (NSI Index)</b>	100	400	1500	9100

Source: UN Statistic Division - Greek Statistical Institute - Bulgarian National Statistical Institute

The developments in the past show that when the producers from Iran can not sell their goods to Turkey because of the quantitative restriction, due to the transport convenience, they direct their exports to Balkan Countries. However because these new countries are

relatively small markets, exporting to these countries cannot compensate the loss in sales occurred after the quantitative restriction in Turkey.

Additionally after the new investments in Iran, which were realized recently, the production capacity has been increased 304 % and excess capacity has reached 50% in the country. Beside this, with the planned new line investment, the production will increase again in near future.

Due to its scale and transportation convenience, Turkey is the only market for the Iranian producers to sell this amount of excess capacity. Therefore, if the quantitative restriction is withdrawn, Turkey will be the target market again.

### **Ukraine:**

Evaluations about the 2<sup>nd</sup> quality float glass producers in Russia, which are explained in previous sections, are parallel to the Ukrainian producer's situation. Therefore Turkey will be the target market for the Ukrainian producer after the quota period as before 2002.

Consequently, Russian and Iranian producers directed their exports to the other markets after the quantitative restriction in Turkey. Therefore Balkan Region has been very important market for the mentioned countries' producers. They realized sharply increase in their exports to this region.

The Ukrainian producer could realize temporary supply-demand balance because of the cold repair in 2004.

The consumption supplied 100% by imports in Bulgaria and Romania until now. However, after the new investments in Bulgaria (by Trakya Cam) and Romania (by St.Gobain), Russian and Iranian producers will compete with the local producers in both country. As a result, after the quota period, mentioned producers will direct their excess capacities to our country instead of increasing their exports to the Balkan Region.

Considering the developments before the quota period in 2002 and in the first half of 2003, it can be expected that Russian, Ukrainian and Iranian producers' low price levels will be continued due to their cost advantages. Imports from mentioned countries will sharply increase after the quota period and the producers' capacity utilization rate will be increased in these countries. Hence the contraction in Trakya Cam' production will be inevitable.

## **9 Difference in Prices**

The cost of imports for the flat glass originating in Iran, Russia and Ukraine has been lower than our domestic float glass prices between 24% and 58% in 2001-2005 period. This price difference is highly attractive for the markets where the price is priority.

## **10 Other factors which effects the serious injury and threat of serious injury**

**10.1 Other factors which cause to serious injury and threat of serious injury: (i) contraction in consumption; (ii) Decrease in Exports; (iii) Increase in competition between the producers in domestic market (iv) Excess production capacity (v) Development of alternative products; (vi) High depreciation cost due to the new investments; (vii) High financial cost; (viii) Working capital stringency; (ix) Imports from other countries that are not in the scope of the complaint:**

With the withdrawal of quantitative restriction implementation any other serious injury or any development to cause any injury, which may influence our company except the imports from the mentioned countries, is not foreseen.

### **(i) Contraction in consumption**

Due to economic developments in our country, local float glass consumption grows up instead of contraction in consumption.

### **(ii) Decrease in Export Volume**

Parallel to the positive improvements in the domestic market, the demand to our products increases also in the foreign markets. Our production capacity to meet with the local consumption, our internal processing needs and target export volumes will be generated with planned two float glass lines investments that will be established in Yenişehir.

### **(iii) Increase in competition between the producers in domestic market**

At present there is no other local producer in our country.

### **(iv) Excess capacity**

Trakya Cam plans the capacity increases parallel to the anticipated local market demand growth. Float technology required high-capacitated facility establishment. For that reason new production capacities exceed the domestic demand growth.

### **(v) Development of alternative products**

Float glass is being produced with the latest technology. There is no other product to substitute the float glass.

### **(vi) High depreciation cost due to the new investments**

One of the most important characteristics of the float glass sector is the requirement of capital-intensive investments. For that reason, new capacity or renewal investments require high capacity investments. Therefore in the years of the investment realization, high depreciation costs will arise and in order to eliminate the negative influence on profitability the capacity must be utilized at the highest level. Otherwise, parallel to the decrease in the production, the share of depreciation in the average cost will increase rapidly and profitability will be seriously affected. The ongoing investments in Bursa-Yenişehir will cause high depreciation costs in the following terms.

**(vii) High financial cost;**

Our company procures credits at market terms.

**(viii) Working capital stringency**

There is no capital stringency that will influence our main working capital.

**(ix) Imports from the other countries that are not in the scope of the complaint:**

Flat glass imports from other countries is actualized according to the free trade regulations. Therefore, despite growing trend of the imports, a progress, which may cause a threat, is not foreseen. In the fourth quarter of 2006, St.Gobain float glass production in Romania will become an operational. Imports from mentioned country to Turkey is expected to increase following the line becoming operational.

**10.2 Justify your clearances with the arguments upon the changes in the consumer preferences and the effects of the said changes.**

Structural changes in the customer preferences are not in question. The float glass consumption predominantly consists of glass consumption in the window glass and glass fittings of balconies, double-glazed glass, and glass use in the furniture. In the said consumption areas, price is the market priority. For that reason, the imported glass from Iran, Russia and Ukraine are preferential in the local market.

## **11 The form and duration of the safeguard measure**

**11.1 Define the form of the safeguard measure, which is considered necessary by your firm and explain your reasons. (Quantitative restriction, tariff increase, quantitative restriction + tariff increase, etc.)**

The extension of the quantitative restriction for flat glass originating in Iran, Ukraine and Russia is demanded in order to eliminate the serious injury and threat of serious injury.

Otherwise the local flat glass market will become the main target of the lower-priced flat glass import from the mentioned countries as in the past term.

In a short term with the effect of the growing production capacities in the mentioned countries, the flat glass imports will increase unavoidably following the cease of the quantitative restriction.

Therefore, it is appropriate to extend the current safeguard measure against the imports of flat glass originating in the mentioned countries.